

COMMISSIONERS' ORDINANCE NO. 0-7-19

AN ORDINANCE CREATING A NEW CHAPTER OF THE COVINGTON  
CODE OF ORDINANCES TITLED CITY DEBT MANAGEMENT POLICY.

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NOW, THEREFORE,  
BE IT ORDERED BY THE BOARD OF COMMISSIONERS OF THE CITY OF  
COVINGTON, KENTON COUNTY, KENTUCKY:

Section 1

A new chapter of the Covington Code of Ordinances, 1984 edition, is hereby  
added as follows:

**TITLE IV: FINANCIAL REGULATIONS**

**CHAPTER 40:    ~~[[Reserved]]~~ DEBT MANAGEMENT POLICY**

**CHAPTER 41:    CITY INDUSTRIAL REVENUE BOND POLICY**

Section 2

Sections 40.01 through 41.08, which read as follows, are added to and amend the  
Covington Code of Ordinances:

**§40.01        INTENT AND PURPOSE.**

**One of the keys to sound financial management is the development of a debt policy. This need is recognized by bond rating agencies, and development of a debt policy is a recommended practice by the Government Finance Officers Association. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. The debt policy ensures that the City maintains a sound debt position and that its credit quality is protected. Adherence to a debt management policy signals to the rating agencies and the capital markets that the City is well managed and should be able to meet its obligations in a timely manner. Adherence to this policy will help assure the City's credit ratings.**

**The City recognizes that a fiscally prudent debt policy is required to:**

- Maintain the City's sound financial position;
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses;
- Protect the City's creditworthiness;
- Ensure that all debt is structured to protect both current and future taxpayers, ratepayers and citizens of the City; and
- Ensure that the City's debt is consistent with the City's planning goals, objectives, capital improvement program, and/or budget.

Advantages of a debt policy are as follows:

- Enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making,
- Provides rationality in the decision-making process,
- Identifies objectives for staff to implement,
- Demonstrates a commitment to long-term financial planning objectives, and
- Is regarded positively by the rating agencies in reviewing credit quality.

#### § 40.02 DEFINITIONS.

For the purpose of this subchapter, the following definitions shall apply unless the context clearly indicates or requires a different meaning.

**Advance Refunding.** A refinancing transaction in which new (refunding) bonds are issued to repay (refund) outstanding bonds prior to the first call date. The proceeds of the refunding bonds are deposited in an escrow account, invested in government securities, and used to pay debt service (interest, principal and premium, if any) on the refunded bonds through the applicable call date.

**Arbitrage.** The difference between the interest paid on the tax-exempt securities and the interest earned by investing the proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

**Bond Anticipation Notes (BANs).** Notes which are paid from the proceeds of the issuance of long-term bonds. Typically issued for capital projects.

**Call Provisions.** The terms of the bond giving the issuer the right to redeem all or a portion of a bond prior to its stated date of maturity at a specific price, usually at or above par.



**Capitalized Interest.** A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

**Capital Lease.** A lease obligation that has met the criteria to be categorized as a capital lease as opposed to an operating lease under generally accepted accounting principles.

**Competitive Sale.** A sale/auction of securities by an issuer in which underwriters or syndicate of underwriters submit sealed bids to purchase the securities.

**Continuing Disclosure.** The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities, be made available on an ongoing basis.

**Debt.** An amount of money borrowed by one party, the borrower or debtor, to a second party, the lender or creditor.

**Debt Service Reserve Fund.** The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

**Designation Policies.** A policy or policies that outline how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders which form the designation policy: Group Net Orders; Net Designated Orders and Member Orders.

**Escrow.** A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

**Expenses.** Compensates senior managers for out-of-pocket expenses including underwriter's counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

**General Obligation (GO) Bonds.** Bonds issued and secured by the City's pledge of its full faith and credit and unlimited taxing power.

**Intergenerational Equity.** Equity or fairness principle that those that benefit from a capital improvement should pay for it.

**Legal Debt Margin.** The amount of GO bonds and certain other interest-bearing obligations (other than revenue bonds) that the City may have



outstanding expressed as a percentage of the assessed value of real property in the City as shown on the last preceding assessment for taxes.

**Negotiated Sale.** A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

**Option Value.** Option valuation is a methodology for evaluating the efficiency of a refunding. Option valuation calculates the maximum theoretical value of refunding a bond, then expresses the current refunding savings as a percentage of the maximum theoretical savings.

**Pay-As-You-Go.** An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

**Present Value.** The current value of a future cash flow.

**Private Placement.** The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

**Rebate.** A requirement imposed by the Tax Reform Act of 1986 whereby the issuer of tax-exempt bonds must pay the IRS an amount equal to its profit earned from investment of tax-exempt bond proceeds at rates exceeding the tax-exempt borrowing rate. The tax-exempt borrowing rate (or "bond yield") is calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

**Refunding.** A transaction in which the City refinances an outstanding issue by issuing new (refunding) bonds and using the proceeds to immediately retire the old (refunded) bonds.

**Revenue Bonds.** Bonds issued by the City secured by a specific revenue pledge of rates, rents or fees.

**Tax-Supported Debt.** Debt that is expected to be repaid from the general fund tax revenues of the City. This includes GO bonds, appropriation-supported bonds, capital leases and in certain circumstances moral obligation bonds. For the purpose of this Debt Policy, net tax-supported debt includes GO debt for the City, certain bonded capital leases, and any moral obligation bonds for which the City has deposited funds to a debt service reserve fund as requested to replenish such reserve fund.

**Underwriter.** A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

**Underwriter's Discount.** The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.



**§40.03 GUIDELINES FOR DEBT ISSUANCE.**

**(A) The City will prepare and update annually a five-year Capital improvement Program (CIP) to be approved by City Commission. The CIP will be developed with an analysis of the City's infrastructure and other capital needs, and the financial impact of the debt service required to meet the recommended financing plan. The City will strive to fund at least 10% of the CIP projects' aggregate cost on a cash basis.**

**(B) Each project proposed for financing through debt issuance will have an analysis performed for review of tax impact and future operating costs associated with the project and related debt issuance costs.**

**(C) All proceeds from City issued debt shall be appropriated by the City Board of Commissioners.**

**(D) Proceeds from the issuance of debt shall be monitored with regard to federal arbitrage restrictions. Compliance with all applicable federal tax requirements shall be adhered to. The City will coordinate expected project funds payout so as to maximize investment earnings in light of federal arbitrage requirements.**

**(E) Long-term debt will be issued for capital improvements or to purchase equipment with a minimum expected life of five years. The City will not use long term borrowing to finance annual operating needs. The term of any bond issue will not exceed the useful life of the capital project /facility or equipment for which the borrowing is intended.**

**(F) The City will attempt to avoid short-term debt to provide cash flow for annual operations. Debt issued for operating purposes will be limited to cases where there is reasonable certainty that a known source of revenue will be received in the current fiscal year sufficient to repay the debt or where there is a clear financial emergency.**

**(G) The City will comply with all applicable U.S. Internal Revenue Service (IRS) and Treasury arbitrage requirements for bonded indebtedness in order to preserve the tax-exempt status of such bonds.**

**(H) Bond issues will be planned to minimize the frequency of issuance, thereby ensuring the lowest possible costs of issuance. When determining the size of a bond issue, consideration shall be given to the need for construction, debt service and capitalized interest funds. Construction fund draw schedules shall be prepared, and projection of earnings on unspent bond funds shall be made in conjunction with the City's CIP planning.**



(I) The decision to use bond proceeds to pay interest during construction for revenue-producing projects shall be made on a case by case basis and shall be based on an evaluation of the opportunity cost of funds and the availability of other sources of funds to pay interest costs.

(J) GO bonds will be amortized on a level principal basis to the extent practical, and revenue bonds will be amortized on a level debt service basis to the extent practical considering the forecasted available pledged revenues.

(K) The City shall not endorse the obligation of any entity. However, the City may enter into contracts with other regional or local public entities with respect to public purpose projects, which provide for certain payments when project or entity revenues prove insufficient to cover debt service on obligation issued to finance such project(s). The City will enter into these types of agreements only when there is long-term public and financial interest in the regional or local project(s). The obligation could be structured as Moral Obligation Bonds, or with an underlying support agreement or other contractual arrangement. These obligations do not affect the legal debt limit of the City and all payments shall be subject to annual appropriation. However, if such payments were made, the obligations would be considered tax supported debt.

(L) The City's preferred method of sale of bonds is via competitive sale to underwriters. If deemed advantageous, the City may sell bonds via a negotiated sale, private placement, or other method. Coordination will be made with the City's financial advisor in arriving at a recommendation to issue bonds through a method other than competitive sale.

#### §40.04 UNDERWRITER SELECTION.

(A) Senior Manager Selection. The City shall select a senior manager for any proposed negotiated sale. The selection criteria shall include, but not limited to, the following:

- (1) Ability and experience in managing transactions similar to that contemplated by the City;
- (2) Prior knowledge, experience, and support of the City;
- (3) Ability and willingness to risk capital and demonstration of such risk and capital availability;
- (4) Quality and experience of personnel assigned to the City's engagement;
- (5) Financing plan; and

(6) Underwriting fees.

(B) Co-Manager Selection. Co-managers may be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

(C) Underwriter's Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with final approval from the City.

(D) Underwriter's Discount. The City will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the City will determine the allocation of underwriting liability and management fees, if any. The allocation of fees will be determined prior to the sale date; a cap on management fees, expenses and underwriter's counsel fee will be established and communicated to all parties by the City. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

(E) Evaluation of Underwriter Performance. In conjunction with its financial advisor, the City will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

(F) Designation Policies. To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

- (1) Fairly allocate bonds to other managers and the selling group;
- (2) Comply with Municipal Securities Rulemaking Board (MSRB) regulations governing the priority of orders and allocations; and
- (3) Within 10 working days after the sale date, submit to the City a detail of orders, allocations and other relevant information pertaining to the City's sale.

§40.05 LIMITATIONS ON LEVEL OF DEBT TO BE ISSUED AND OUTSTANDING.



(A) Constitutional and Statutory Limitations. Section 158 of the Constitution of Kentucky established the City's Legal Debt Margin at 10% of the assessed value of real property within the City shown by the last preceding assessment for taxes.

(B) Self-Imposed Debt Targets:

- (1) For all of the City's self-imposed debt targets, the City may exclude all or a portion of any bonds or leases that are self-supporting.
- (2) Net tax-supported GO debt service shall not exceed 10% of General Fund revenues.
- (3) Net tax-supported GO debt will be structured in a manner such that not less than 60% of the aggregate outstanding tax-supported debt will be retired within ten years.

#### §40.06 TYPES OF DEBT ISSUANCE.

(A) The City may issue GO debt for capital or other properly approved projects.

(B) The City may issue revenue bonds to fund proprietary activities that generate adequate revenues from user fees to support operations and debt service requirements. The bonds will include written legal covenants which require that revenue sources are adequate to fund annual operating expenses and annual debt service requirements.

(C) Capital leases may be used to purchase buildings, equipment, furniture and fixtures. The term of any capital lease shall not exceed the useful life of the asset leased.

(D) Short-term borrowing may be utilized for interim financing or for other purposes as described below. The City will determine and utilize the least costly method for short-term borrowing subject to the following policies:

- (1) Bond Anticipation Notes (BANs) may be issued for capital related cash purposes to reduce the debt service during the construction period of a project or to provide interim financing for a project. The BANs shall not mature more than 5 years from the date of issuance.
- (2) Lines of Credit shall be considered as an alternative to other short-term borrowing options.



- (3) Other Short-Term Debt may be used when such instruments provide an interest rate advantage or as interim financing.

(E) Lease financing and master lease obligations, including lease revenue bonds, may be considered as alternative financing structures.

**§40.07 REFUNDING OF DEBT.**

(A) The City will refund debt when it is in the best financial interest of the City to do so.

- (1) Debt Service Savings. When a refunding is undertaken to generate interest rate savings, the minimum aggregate present value savings will be 3% of the refunded bond principal amount.
- (2) Restructuring. Refunding to restructure debt will be limited to restructuring to alleviate debt service during difficult budgetary years, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.
- (3) Term of Refunding Issues. The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City also may consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.
- (4) Escrow Structuring. The City shall utilize the least costly securities available in structuring refunding escrows. A certificate will be provided by a third-party agent stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
- (5) Arbitrage. The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

**§40.08 INVESTOR RELATIONS, DISCLOSURE AND COMMUNICATION.**

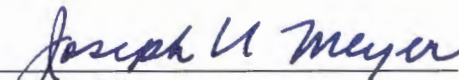
**(A) Debt ratios will be computed annually and reported in the Comprehensive Annual Financial Report (CAFR), along with a computation of net tax-supported debt per capita.**

**(B) The City will maintain communication with bond rating agencies to keep them abreast of its financial condition by providing them the City's CAFR, Annual budget, and CIP.**

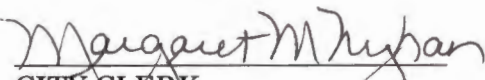
**(C) The City will comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12.**

Section 3

This Ordinance shall take effect and be in full force when passed, published and recorded according to the law.

  
MAYOR

ATTEST:

  
CITY CLERK

Passed: 3-26-19 (Second Reading)

3-12-19 (First Reading)



Meeting Date:					
ORD.: 1ST		2ND			
OR:					
	Bowman	Z Downing	Smith	/ Williams	Meyer
Yeas	✓	✓	✓	✓	✓
Nays					
Present, not Voting					